

KENT INTERMEDIATE SCHOOL DISTRICT

GRAND RAPIDS, MICHIGAN

AUDITED FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2008



REHMANN ROBSON

Certified Public Accountants

KENT INTERMEDIATE SCHOOL DISTRICT

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INDEPENDENT AUDITORS' REPORT

November 12, 2008

Board of Education
Kent Intermediate School District
Grand Rapids, Michigan

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of **KENT INTERMEDIATE SCHOOL DISTRICT**, as of and for the year ended June 30, 2008, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the management of Kent Intermediate School District's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund and the aggregate remaining fund information of Kent Intermediate School District as of June 30, 2008, and the respective changes in financial position thereof and the respective budgetary comparison of each major special revenue fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 12, 2008, on our consideration of Kent Intermediate School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages 3-10 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Kent Intermediate School District's basic financial statements. The combining and individual fund financial statements and schedules, are presented for purposes of additional analysis and are not a required part of the Kent Intermediate School District's basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

A handwritten signature in black ink, reading "Lehmann Lohman". The signature is written in a cursive style with a large, stylized 'L' at the beginning.

MANAGEMENT'S DISCUSSION AND ANALYSIS

MANAGEMENT'S DISCUSSION AND ANALYSIS

To understand our financial statements, you must first know Kent Intermediate School District (Kent ISD) and its purpose.

Created by state legislation in 1962 to serve local schools and act as a liaison between them and the Michigan Department of Education, Kent ISD is one of 57 intermediate school districts across the state. It is known for its regional cooperation and the strength of its programs. Kent ISD is a shared community resource, providing an extensive network of supportive service that helps families and local schools successfully grow preschoolers into graduates and lifelong learners.

Kent ISD offers a wide range of services focused on learning. Kent ISD serves the schools and communities of its 20 traditional public school districts, along with non-public, home schools and charter schools. That means serving more than 400 schools, 122,160 students and almost 16,000 educators and staff, with programs and services that would be too resource-intensive or costly to maintain at a district level.

From its highly advanced, career-oriented Kent Career Technical Center (KC/TC), to the adaptive vocational education center-Kent Transition Center (KTC), Kent ISD is helping teach and inspire the young minds of the future throughout the Grand Rapids metropolitan area. As an educational advocate, Kent ISD helps make the needs of children and their schools known to community leaders, legislators, service agencies and media.

Our Educational Service Center (ESC) hosts over 6,500 guests each year for training and professional meetings. Under REMC8 (serving the counties of Kent, Ionia and Montcalm) we have distributed approximately 10,600 media library items, provided over 2,500 digital media, and had our couriers travel almost 38,000 miles delivering materials to our schools. Our technology staff serves more than 6,500 teachers each year with equipment training and other services. Through research and development of effective curriculum, our Kent County Collaborative Core Curriculum (KC4) has been sold throughout the United States. We have developed a new tool, Curriculum Crafter, which will also be sold nationally.

Our Kent Career/Technical Center (KC/TC) serves over 2,500 students in 26 technical programs, from over 70 public and private high schools in Kent County. KC/TC provides students with quality training in career and technical programs that include technical training, academic integration and alignment with post-secondary education. KC/TC also has satellite programs at Northview High School and at Byron Center High School for Regional Theatre Technology and at Gerald R. Ford International Airport for Avionics-Aircraft Electronics Technician.

Our Kent Transition Center (KTC) provides a wide variety of entry-level job skills, vocational training and work experience for 384 students who are academically challenged, at-risk, or who need hands-on learning. Approximately 90 area companies serve as KTC partners. The center has been recognized as an *Exemplary School* for its work in adapted vocational training and job placement of students.

Visit our web site at www.kentisd.org to see what sets us apart.

Reporting the District as a Whole - District-wide Financial Statements

One of the most important questions asked about Kent ISD is, “As a whole, what is the District’s financial condition as a result of the year’s activities?” The Statement of Net Assets and the Statement of Activities, which appear first in the District’s financial statements, report information on the District as a whole and its activities in a way that helps answer this question. We prepared these statements to include all assets and liabilities, using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year’s revenues and expenses are taken into account regardless of when cash is received or paid.

The Statement of Net Assets and Statement of Activities report the governmental activities for the District, which encompass all of the District’s services, including instruction, supporting services, and community services. Property taxes, unrestricted state aid and state and federal grants finance most of these activities.

These two statements report the District’s net assets - the difference between assets and liabilities-in the Statement of Net Assets, as one way to measure the District’s financial health, or financial position. Over time, increases or decreases in the District’s net assets - as reported in the Statement of Activities - are one indicator of whether its financial health is improving or deteriorating. The relationship between revenues and expenses is the District’s operating results; whether the District had a profit or a loss at year end. However, unlike the private-sector, the District’s mission is to strengthen communities by providing leadership for learning, not to generate profits as commercial entities do. The District accomplishes its mission through innovative partnerships, technology, training, professional development and research. It is Kent ISD’s vision to “lead learning.”

Reporting the District’s Most Significant Funds - Fund Financial Statements

The District’s fund financial statements provide detailed information about the most significant funds - not the District as a whole. Some funds are required to be established by State law or by bond covenants. However, the District establishes many other funds to help it control and manage money for particular purposes or to show that it is meeting legal responsibilities for using certain taxes, grants and other money. All of the District’s services are reported in governmental funds. The governmental funds of the District use the following accounting approach:

Governmental fund reporting focuses on showing how money flows into and out of funds and the balances left at year end that are available for spending. They are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the operations of the District and the services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the District’s programs. We describe the relationship (or differences) between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds in a reconciliation statement.

The District as Trustee - Reporting the District’s Fiduciary Responsibilities

The District is the trustee, or fiduciary for funds it holds for other groups. All of the District’s fiduciary activities are reported in separate Statements of Fiduciary Net Assets. We exclude these activities from the District’s other financial statements because the District cannot use these assets to finance its operations. The District is responsible for ensuring that the assets reported in these funds are used for their intended purposes.

The District as a Whole

Recall that the Statement of Net Assets provides the perspective of the District as a whole. Table 1 provides a summary of the District's net assets as of June 30, 2008 and 2007, respectively:

TABLE 1

	Governmental Activities (in millions)	
	2008	2007
Assets		
Current and other assets	\$ 64.6	\$ 54.9
Capital assets	<u>36.0</u>	<u>33.2</u>
Total asset	100.6	88.1
Liabilities		
Current liabilities	37.9	30.5
Long-term liabilities	<u>.5</u>	<u>.5</u>
Total liabilities	38.4	31.0
Net Assets		
Invested in property and equipment –		
Net of related debt	36.0	33.1
Restricted	22.1	19.5
Unrestricted	<u>4.1</u>	<u>4.3</u>
Total net assets	<u>\$ 62.2</u>	<u>\$ 57.1</u>

The above analysis focuses on the net assets (Table 1). The District's net assets were \$62.2 million at June 30, 2008, and \$57.1 million at June 30, 2007, increasing by \$5.1 million in 2008. This increase is due to an increase in capital assets of \$ 2.8 million, as well as a positive change in our cash position due to an increase in taxable values of approximately 4.9%. Capital assets in 2008 and 2007, net of related debt, totaling \$36.0 million and \$33.1 million respectively, is arrived at by taking the historical cost of the asset and subtracting the accumulated depreciation expense and any debt obligation arising from the assets' purchase. Restricted net assets are reported separately to show legal constraints from debt covenants and enabling legislation that limit the District's ability to use those net assets for day-to-day operations. Restricted net assets increased to \$22.1 million in 2008 from \$19.5 million in 2007. The remaining amount of net assets, \$4.1 million in 2008, and \$4.3 million in 2007 was unrestricted.

The \$4.1 million in unrestricted net assets for 2008 represents the *accumulated* results of all past years' operations. It means that if we had to pay off all of our bills *today*, including all of our noncapital liabilities, we would have \$4.1 million left. The operating results of the District will have a significant impact on the change in unrestricted net assets from year to year.

The results of this year's operations for the District as a whole are reported in the Statement of Activities (Table 2), which shows the changes in net assets for fiscal years 2008 and 2007.

TABLE 2

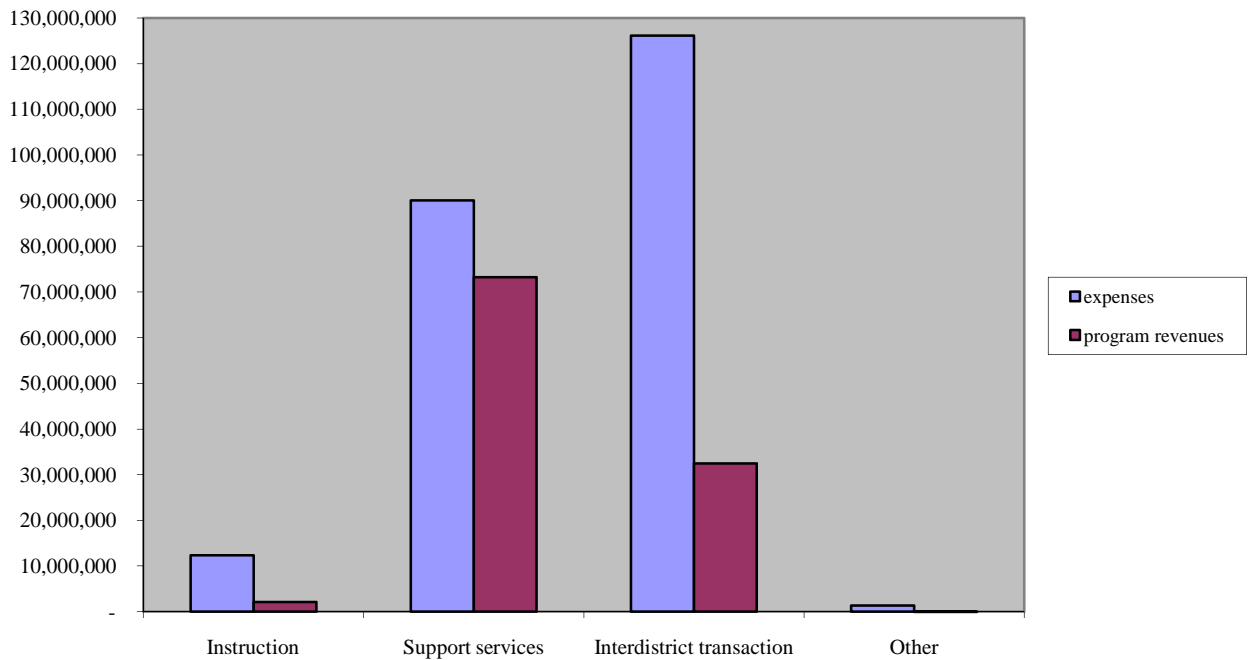
	Governmental Activities (in millions)	
	<u>2008</u>	<u>2007</u>
Revenue		
Program revenue:		
Charges for services	\$ 67.6	\$ 63.6
Operating grants	40.1	33.1
Capital grants	.1	.1
General revenue:		
Property taxes	100.3	95.4
Unrestricted State Aid	23.0	26.1
Other	<u>3.7</u>	<u>2.7</u>
Total revenue	\$ 234.8	\$ 221.0
Expenses		
Function/Program Expenses		
Instruction	\$ 12.3	\$ 11.6
Support services	90.0	84.6
Community services	.3	.9
Interdistrict transfers	126.1	120.9
Other	<u>1.0</u>	<u>1.0</u>
Total expenses	229.7	219.0
Increase in Net Assets	<u>\$ 5.1</u>	<u>\$ 2.0</u>

As reported in the Statement of Activities, the cost of all of our *governmental* activities this year was \$229.7 million. Certain activities were partially funded from those who benefited from the programs (\$67.6 million) or by other governments and organizations that subsidized certain programs with grants and contributions (\$40.1 million). We paid for the remaining "public benefit" portion of our governmental activities with \$100.3 million in taxes, \$23.0 million in state aid, and with our other revenues, like interest and general entitlements.

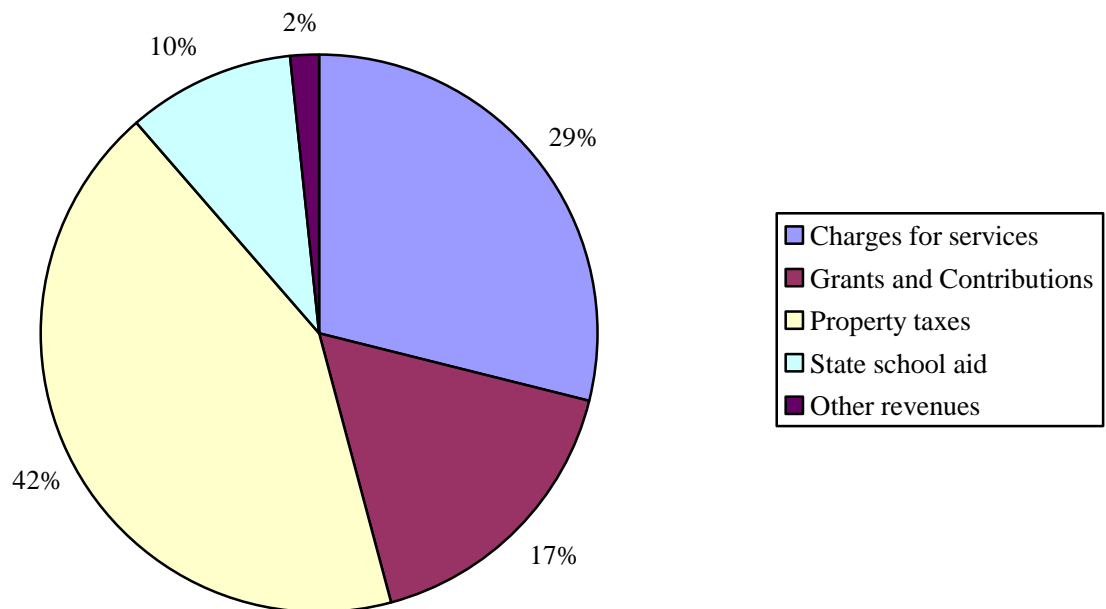
The District's revenue increased in 2008 by \$13.8 million dollars over 2007. The increase is partially due to additional property tax revenue (\$4.9 million) and charges for services which increased in 2007-2008 by \$4 million. Grant revenue also increased in 2008, up by \$7 million over 2007, while unrestricted state aid was down about \$3 million. The District's expenses increased in 2008 by \$10.7 million, mostly due expenditures arising from grant obligations, as well as increased costs for personnel. Kent ISD's transfers to local districts increased by \$5.2 million.

The District experienced an increase in net assets of \$5.1 million for fiscal year 2008, meaning that revenue exceeded expenses by this amount. The prior year increase in net assets was \$2.0 million. As stated above, this increase is due in mainly to the increase in taxable values by about 4.9%.

Expenses and Program Revenues - Governmental Activities



Revenues by Source – Governmental Activities



The District's Funds

As we noted earlier, the District uses funds to help it control and manage money for particular purposes. Looking at funds helps the reader consider whether the District is being accountable for the resources taxpayers and others provide to it and may provide more insight into the District's overall financial health.

The District's overall fund balance increased slightly in 2008, at \$2.3 million, as compared to an increase of \$3 million in 2007.

General Fund fund balance is available to meet the costs related to District operating purposes. The current year decrease to \$3.8 million from \$4.2 million was due to increased expenditures while total revenue remained about the same as the prior year.

Our Special Revenue Funds showed a net increase of \$.5 million dollars over the prior year. The main reason for this increase is that our special revenue funds realized additional property taxes over the prior year.

The District does not have any debt obligations other than Durant debt obligations, which are funded by annual State appropriations, accordingly.

The combined Capital Projects Funds fund balance increased by \$2.0 million in preparation of completing a new special education building project, Pine Grove Learning Center, in 2008/2009.

General Fund Budgetary Highlights

Over the course of the year, the District revises its budget as it attempts to deal with unexpected changes in revenues and expenditures. State law requires the budget be amended to insure expenditures do not exceed appropriations. The final amendment to the budget was actually adopted just before year-end. (A schedule showing the District's original and final budget amounts compared with amounts actually paid and received is provided as a basic financial statement).

There were revisions made to the 2007-2008 original budgets. Budgeted revenues were increased \$1.8 million over the original budget, due to an unanticipated federal grant awarded after the original budget was approved.

Budgeted expenditures were also increased \$2.8 million over the original budget, to provide for the expenditures related to the federal grant mentioned above, as well as the support of Lighthouse Academy.

Significant variances between the final budget amounts and actual were as follows:

Local and Federal Revenue have unfavorable variances of \$.7 million and \$.4 million respectively, relating to timing differences across fiscal years for grant funds.

Favorable variances in expenditures are due primarily to timing differences in grant expenditures for Instructional Staff, Interdistrict Transactions, and Pupil Services.

Capital Asset and Debt Administration

Capital Assets

At June 30, 2008, the District had \$63.7 million invested in a broad range of capital assets, including land, buildings, and furniture and equipment. This amount represents a net increase (including additions and deductions but before depreciation) of approximately \$5 million, or 8.5 percent, from last year.

	<u>2008</u>	<u>2007</u>
Land	\$ 1,271,973	\$ 474,740
Construction in progress	3,204,336	420,732
Buildings and Structures	44,307,537	43,972,143
Furniture and equipment	14,314,863	13,290,057
Vehicles	<u>657,941</u>	<u>595,405</u>
Total capital assets	<u>\$ 63,756,650</u>	<u>\$ 58,753,077</u>

Additions of \$5,410,244, net of prior year's construction in progress, included vocational education equipment, technology, building renovations and site improvements. No debt was issued for these additions.

Kent ISD is in the process of building a new special education facility, Pine Grove Learning Center. This project is expected to be finished in the 2008-2009 fiscal year. It is estimated that this project will cost an additional \$5.7 million dollars to complete. The District also entered into a new 18 year lease for an expansion project on a hangar at Gerald R. Ford International Airport at a cost of \$1.8 million dollars. This expansion has allowed Kent ISD to offer several new programs in our KC/TC curriculum.

Debt

At the end of this fiscal year, the District had \$300,693 in bonds outstanding.

Other obligations include accrued compensated absences, and early retirement incentives. We present more detailed information about our long-term liabilities in the notes to the financial statements.

Currently Known Facts, Decisions, or Conditions

The District is committed to providing its internal and external customers with the tools necessary to complete their tasks in a timely fashion for the benefit of the district's student population. To achieve this task, the District has designed a data warehouse. The data warehouse contains data from student management systems, and assessment systems such as MEAP, MAP and WorkKeys. More than 17 local districts in Kent County are now utilizing the data warehouse to analyze data to improve classroom instruction, measure progress toward school improvement goals and assist with reporting requirements such as No child Left Behind.

The District has entered into an agreement with the Michigan Military Preservation Society and the Kent County Board of Aeronautics for a facility which was built on the grounds of the Gerald R. Ford International Airport. The agreement provides for Kent ISD to lease a portion of this new building for our Avionics-Aircraft Electronics Technician Program. The total cost of this lease is almost \$1.3 million and covers a period of 17 years. There are 13 years left on this lease. Due to the increased interest in this program, the District entered into a second lease for an addition to the original building, allowing the District to expand the programs it offers, and to move its Aeronautics Lab to this building, as well. The new lease is for a period of 18 years at a cost of \$1.8 million dollars.

Our Board and administration consider many factors when setting the District's 2008/2009 fiscal year budget. One of those factors is estimating the amount of state aid that the State of Michigan will provide for the upcoming year. The board must estimate how the State's revenue shortfalls will be passed along to Kent ISD in the form of decreased funding of grants and categoricals.

Our Board must also consider the ever increasing cost of employee benefits. Estimating what those costs will be for the upcoming year is always a challenge. Kent ISD is now self-insured in many areas, and is hoping to achieve some cost savings as a result of this.

The 2008/2009 budget was adopted in June 2008.

In an effort to be good stewards of taxpayer dollars, the District is involved in several programs which allow the District to take advantage of reduced prices on some goods and services we purchase. Additionally, Kent ISD is one of the charter members of the Michigan School Energy Cooperative (MISEC). This is an energy cooperative of approximately 300 school districts who purchase natural gas and electricity through a bid process. Kent ISD alone saves approximately \$20,000 yearly on the purchase of these two utility commodities through MISEC. Kent ISD has also made modifications internally to promote additional savings on energy by installing sensor switches on room lighting and implementing an awareness program to encourage employees to conserve energy. The District has recently installed a "green roof" on the KTC building. Green roofs contribute positively to ecosystems and can reduce ambient air temperature, energy use, and utility costs. Kent Intermediate School District is committed to finding the most cost effective ways to make efficient use of the resources entrusted to us.

KENT INTERMEDIATE SCHOOL DISTRICT

Statement of Net Assets

June 30, 2008

	Governmental Activities
Assets	
Current assets:	
Cash and cash equivalents	\$ 20,617,720
Investments	11,241,094
Accounts receivable	190,707
Due from other governmental units	27,064,789
Inventories	1,029,459
Prepaid items	4,493,683
Total current assets	<u>64,637,452</u>
Noncurrent assets:	
Capital assets not being depreciated	4,476,309
Capital assets being depreciated, net	<u>31,551,377</u>
Total noncurrent assets	<u>36,027,686</u>
Total assets	<u>100,665,138</u>
Liabilities	
Current liabilities:	
Accounts payable	6,037,110
Accrued liabilities:	
Salaries payable	5,295,737
Employee benefits	2,562,464
Interest payable	60,598
Due to other governmental units	18,973,876
Unearned revenue	4,949,656
Bonds payable within one year	28,341
Compensated absences payable within one year	<u>62,281</u>
Total current liabilities	<u>37,970,063</u>
Noncurrent liabilities:	
Bonds payable	272,352
Compensated absences/severance payable, net of current portion	<u>199,700</u>
Total noncurrent liabilities	<u>472,052</u>
Total liabilities	<u>38,442,115</u>
Net assets	
Invested in capital assets, net of related debt	36,027,686
Restricted for:	
Special education	3,299,618
Career technical education	9,889,632
Capital projects	8,886,958
Unrestricted	<u>4,119,129</u>
Total net assets	<u>\$ 62,223,023</u>

The accompanying notes are an integral part of these financial statements.

KENT INTERMEDIATE SCHOOL DISTRICT

Statement of Activities

For the Year Ended June 30, 2008

Functions / Programs	Expenses	Program Revenues			Net (Expense) Revenue
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Governmental activities:					
Instruction	\$ 12,338,888	\$ 1,075,930	\$ 994,855	\$ 50,925	\$ (10,217,178)
Supporting services	90,041,051	66,514,359	6,669,427	-	(16,857,265)
Community services	301,941	-	27,468	-	(274,473)
Interest on long-term debt	8,547	-	-	-	(8,547)
Interdistrict transactions	126,115,999	-	32,474,832	-	(93,641,167)
Unallocated depreciation	1,044,868	-	-	-	(1,044,868)
Total governmental activities	\$ 229,851,294	\$ 67,590,289	\$ 40,166,582	\$ 50,925	(122,043,498)
General revenues:					
Property taxes					100,308,018
State school aid					23,089,121
Payments received in lieu of taxes and other revenue					2,930,793
Unrestricted investment earnings					818,923
Total general revenues					127,146,855
Change in net assets					5,103,357
Net assets, beginning of year					57,119,666
Net assets, end of year					\$ 62,223,023

The accompanying notes are an integral part of these financial statements.

KENT INTERMEDIATE SCHOOL DISTRICT

Balance Sheet Governmental Funds

June 30, 2008

		Special Revenue		Capital Projects	Nonmajor Governmental Funds	Total
	General Fund	Special Education	Career Technical Education	Special Education		
Assets						
Cash and cash equivalents	\$ 3,193,548	\$ 9,086,515	\$ 2,930,402	\$ 4,267,174	\$ 923,074	\$ 20,400,713
Investments	1,182,018	2,234,556	4,055,058	2,656,384	1,113,078	11,241,094
Accounts receivable	59,827	35,007	80,903	-	-	175,737
Due from other governmental units	1,706,148	24,432,481	550,126	4,533	361,291	27,054,579
Due from other funds	20,000	10,694	-	-	-	30,694
Inventories	4,966	-	1,024,493	-	-	1,029,459
Prepaid items	332,226	93,436	2,988,266	-	975,000	4,388,928
Total assets	<u>\$ 6,498,733</u>	<u>\$ 35,892,689</u>	<u>\$ 11,629,248</u>	<u>\$ 6,928,091</u>	<u>\$ 3,372,443</u>	<u>\$ 64,321,204</u>
Liabilities and fund balances						
Liabilities						
Accounts payable	\$ 471,551	\$ 4,230,793	\$ 337,508	\$ 593,906	\$ 403,352	\$ 6,037,110
Accrued liabilities:						
Salaries payable	208,351	4,187,605	899,781	-	-	5,295,737
Employee benefits	718,638	1,536,100	307,726	-	-	2,562,464
Due to other governmental units	39,675	18,704,994	174,180	55,027	-	18,973,876
Due to other funds	206,491	562	8,957	-	-	216,010
Deferred revenue	1,005,175	3,933,017	11,464	-	361,291	5,310,947
Total liabilities	<u>2,649,881</u>	<u>32,593,071</u>	<u>1,739,616</u>	<u>648,933</u>	<u>764,643</u>	<u>38,396,144</u>
Fund balances						
Reserved for:						
Inventories	4,966	-	1,024,493	-	-	1,029,459
Prepaid items	332,226	93,436	2,988,266	-	975,000	4,388,928
Unreserved:						
Designated - KC4 Conversion & CD	100,000	-	-	-	-	100,000
Designated - Curriculum crafter	115,500	-	-	-	-	115,500
Designated - S.M.A.R.T.	35,000	-	-	-	-	35,000
Designated - Pine Grove facility	-	-	-	3,342,888	-	3,342,888
Designated - Lincoln program extension	-	25,000	-	-	-	25,000
Designated - WAN & Fiber	-	-	35,000	-	-	35,000
Designated - Aviation program facility	-	-	-	-	122,550	122,550
Designated - Health careers program	-	-	75,000	-	-	75,000
Designated - RESCON sites	-	-	750,000	-	-	750,000
Designated - Early childhood	50,000	-	-	-	-	50,000
Designated - ESC Project	287,100	-	603,900	-	59,774	950,774
Designated - Kent schools WAN	55,200	34,500	140,300	-	-	230,000
Designated - Student management system	72,000	92,000	236,000	-	-	400,000
Designated - Secondary learning systems	150,000	250,000	600,000	-	-	1,000,000
Designated - College university partnershi	100,000	69,000	21,000	-	-	190,000
Designated - HBA building purchase	688,500	-	1,861,500	-	-	2,550,000
Designated - Campus roads parking	-	-	-	210,000	390,000	600,000
Undesignated	1,858,360	2,735,682	1,554,173	2,726,270	1,060,476	9,934,961
Total fund balances	<u>3,848,852</u>	<u>3,299,618</u>	<u>9,889,632</u>	<u>6,279,158</u>	<u>2,607,800</u>	<u>25,925,060</u>
Total liabilities and fund balances	<u>\$ 6,498,733</u>	<u>\$ 35,892,689</u>	<u>\$ 11,629,248</u>	<u>\$ 6,928,091</u>	<u>\$ 3,372,443</u>	<u>\$ 64,321,204</u>

The accompanying notes are an integral part of these financial statements.

KENT INTERMEDIATE SCHOOL DISTRICT

Reconciliation of Fund Balances on the Balance Sheet for Governmental Funds to Net Assets of Governmental Activities on the Statement of Net Assets

June 30, 2008

Fund balances - total governmental funds	\$ 25,925,060
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Amounts reported for governmental activities in the statement of net assets are different because:

Long term receivables are reported as an asset and revenue when earned on the statement of net assets while the governmental funds report these balances as an asset and deferred revenue until the availability criterion for revenue recognition is met.

Add - deferred long-term receivables	361,291
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An internal service fund is used by management to charge the costs of certain activities, such as compensated absences and insurance, to individual funds. The assets and liabilities of the internal service fund are included in governmental activities.

Add - net assets of governmental activities accounted for in the internal service fund	270,277
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Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.

Add - capital assets not being depreciated	4,476,309
Add - capital assets being depreciated, net	31,551,377

Certain liabilities, such as bonds payable, are not due and payable in the current period and therefore are not reported in the funds.

Deduct - bonds payable	(300,693)
Deduct - accrued interest on bonds payable	(60,598)

Net assets of governmental activities	<u>\$ 62,223,023</u>
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The accompanying notes are an integral part of these financial statements.

KENT INTERMEDIATE SCHOOL DISTRICT

Statement of Revenues, Expenditures and Changes in Fund Balances Governmental Funds

For the Year Ended June 30, 2008

		Special Revenue		Capital Projects		
	General Fund	Special Education	Career Technical Education	Special Education	Nonmajor Governmental Funds	Total Governmental Funds
Revenues						
Local sources	\$ 4,614,686	\$ 88,489,151	\$ 20,949,911	\$ 2,339,422	\$ 88,720	\$ 116,481,890
State sources	3,666,799	23,481,503	1,242,860	25,520	50,925	28,467,607
Federal sources	1,753,698	25,011,591	1,796,634	-	-	28,561,923
Interdistrict	1,381,247	59,955,368	135,442	-	-	61,472,057
Total revenues	11,416,430	196,937,613	24,124,847	2,364,942	139,645	234,983,477
Expenditures						
Current:						
Instruction	310,615	-	10,690,685	-	-	11,001,300
Supporting services	12,151,139	67,059,898	9,395,285	6,314	-	88,612,636
Community service	64,761	78,646	5	-	-	143,412
Other services	190,224	30,594	195,674	-	-	416,492
Interdistrict transactions	387,878	125,548,121	180,000	-	-	126,115,999
Capital outlay	155,387	837,962	1,208,336	1,995,170	2,197,910	6,394,765
Total expenditures	13,260,004	193,555,221	21,669,985	2,001,484	2,197,910	232,684,604
Revenues over (under) expenditures	(1,843,574)	3,382,392	2,454,862	363,458	(2,058,265)	2,298,873
Other financing sources (uses)						
Transfers in	1,853,193	-	426,958	3,200,000	1,220,000	6,700,151
Transfers out	(314,048)	(4,355,427)	(1,320,676)	(100,000)	(610,000)	(6,700,151)
Total other financing sources (uses)	1,539,145	(4,355,427)	(893,718)	3,100,000	610,000	-
Net changes in fund balances	(304,429)	(973,035)	1,561,144	3,463,458	(1,448,265)	2,298,873
Fund balances, beginning of year	4,153,281	4,272,653	8,328,488	2,815,700	4,056,065	23,626,187
Fund balances, end of year	<u>\$ 3,848,852</u>	<u>\$ 3,299,618</u>	<u>\$ 9,889,632</u>	<u>\$ 6,279,158</u>	<u>\$ 2,607,800</u>	<u>\$ 25,925,060</u>

The accompanying notes are an integral part of these financial statements.

KENT INTERMEDIATE SCHOOL DISTRICT

Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities

For the Year Ended June 30, 2008

Net change in fund balances - total governmental funds	\$ 2,298,873
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Amounts reported for *governmental activities* in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Add - capital outlay	5,111,152
Deduct - depreciation expense	(2,271,453)

Revenues in the statement of activities that provide economic resources regardless of the date of receipt are recorded when measurable and available in the fund statements.

Deduct - change in deferred long-term receivables	(42,378)
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Internal service funds are used by management to charge the costs of certain personnel costs to individual funds. The net increase in the net assets of the internal service funds are reported with governmental activities.

Add - net income for the internal service fund	15,710
--	--------

Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the statement of revenues, expenditures and changes in fund balances.

Deduct - increase in accrued interest payable on bonds	<u>(8,547)</u>
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Change in net assets of governmental activities	<u><u>\$ 5,103,357</u></u>
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The accompanying notes are an integral part of these financial statements.

KENT INTERMEDIATE SCHOOL DISTRICT

Statement of Revenues, Expenditures and Changes in Fund Balances Budget and Actual General Fund and Major Special Revenue Funds

For the Year Ended June 30, 2008

	General Fund			
	Budget Amounts		Actual	Variance with Final Budget
	Original	Final		
Revenues				
Local sources	\$ 5,081,734	\$ 5,348,210	\$ 4,614,686	\$ (733,524)
State sources	3,944,387	3,734,961	3,666,799	(68,162)
Federal sources	510,334	2,138,191	1,753,698	(384,493)
Interdistrict	1,327,700	1,482,390	1,381,247	(101,143)
Total revenues	10,864,155	12,703,752	11,416,430	(1,287,322)
Expenditures				
Current:				
Instruction:				
Basic programs	57,300	319,534	310,615	(8,919)
Adult continuing education	-	-	-	-
Student instruction and added needs	-	-	-	-
Supporting services:				
Pupil services	2,308,870	2,563,960	2,388,837	(175,123)
Instructional staff	3,326,230	5,177,314	4,318,070	(859,244)
General administration	600,260	625,760	643,590	17,830
School administration	-	-	-	-
Business services	1,752,457	1,476,161	1,384,150	(92,011)
Operation and maintenance	264,445	291,445	276,839	(14,606)
Transportation services	80,000	-	-	-
Central services	2,612,762	3,143,136	3,139,653	(3,483)
Other services	63,416	299,365	190,224	(109,141)
Community service	51,987	78,147	64,761	(13,386)
Interdistrict transactions	470,850	425,886	387,878	(38,008)
Capital outlay	170,388	191,504	155,387	(36,117)
Total expenditures	11,758,965	14,592,212	13,260,004	(1,332,208)
Revenues over (under) expenditures	(894,810)	(1,888,460)	(1,843,574)	44,886
Other financing sources (uses)				
Transfers in	1,760,000	1,930,200	1,853,193	(77,007)
Transfers out	(1,143,771)	(312,312)	(314,048)	(1,736)
Total other financing sources (uses)	616,229	1,617,888	1,539,145	(78,743)
Net changes in fund balances	(278,581)	(270,572)	(304,429)	(33,857)
Fund balances, beginning of year	4,153,281	4,153,281	4,153,281	-
Fund balances, end of year	\$ 3,874,700	\$ 3,882,709	\$ 3,848,852	\$ (33,857)

The accompanying notes are an integral part of these financial statements.

Special Education Fund				Career Technical Education Fund			
Budget Amounts		Actual	Variance with Final Budget	Budget Amounts		Actual	Variance with Final Budget
Original	Final			Original	Final		
\$ 83,210,348	\$ 87,298,756	\$ 88,489,151	\$ 1,190,395	\$ 20,508,000	\$ 20,855,239	\$ 20,949,911	\$ 94,672
19,385,016	22,710,088	23,481,503	771,415	1,070,000	1,207,033	1,242,860	35,827
24,667,596	25,728,450	25,011,591	(716,859)	2,066,657	1,865,813	1,796,634	(69,179)
47,420,453	62,444,037	59,955,368	(2,488,669)	-	140,000	135,442	(4,558)
174,683,413	198,181,331	196,937,613	(1,243,718)	23,644,657	24,068,085	24,124,847	56,762
-	-	-	-	-	-	-	-
-	-	-	-	45,052	45,052	824	(44,228)
-	-	-	-	11,502,518	11,582,273	10,689,861	(892,412)
47,098,540	47,983,359	43,015,844	(4,967,515)	1,767,626	1,532,480	1,377,506	(154,974)
1,176,874	1,338,123	1,202,800	(135,323)	1,871,381	1,988,650	1,829,093	(159,557)
847,709	657,709	555,431	(102,278)	313,071	368,459	317,176	(51,283)
-	-	-	-	1,441,198	1,448,932	1,506,335	57,403
-	-	-	-	134,000	134,000	100,040	(33,960)
425,920	426,320	415,937	(10,383)	3,690,926	3,731,196	3,441,168	(290,028)
17,216,416	19,507,793	21,623,980	2,116,187	78,850	100,510	71,754	(28,756)
254,070	260,875	245,906	(14,969)	938,554	923,764	752,213	(171,551)
85,585	85,585	30,594	(54,991)	205,454	258,920	195,674	(63,246)
119,889	102,981	78,646	(24,335)	-	-	5	5
106,558,096	126,092,212	125,548,121	(544,091)	163,000	190,965	180,000	(10,965)
49,000	844,633	837,962	(6,671)	1,830,049	2,875,344	1,208,336	(1,667,008)
173,832,099	197,299,590	193,555,221	(3,744,369)	23,981,679	25,180,545	21,669,985	(3,510,560)
851,314	881,741	3,382,392	2,500,651	(337,022)	(1,112,460)	2,454,862	3,567,322
-	-	-	-	1,531,704	530,704	426,958	(103,746)
(851,314)	(4,419,835)	(4,355,427)	64,408	(1,080,000)	(1,447,200)	(1,320,676)	126,524
(851,314)	(4,419,835)	(4,355,427)	64,408	451,704	(916,496)	(893,718)	22,778
-	(3,538,094)	(973,035)	2,565,059	114,682	(2,028,956)	1,561,144	3,590,100
4,272,653	4,272,653	4,272,653	-	8,328,488	8,328,488	8,328,488	-
\$ 4,272,653	\$ 734,559	\$ 3,299,618	\$ 2,565,059	\$ 8,443,170	\$ 6,299,532	\$ 9,889,632	\$ 3,590,100

KENT INTERMEDIATE SCHOOL DISTRICT

Statement of Net Assets Internal Service Fund

For the Year Ended June 30, 2008

	Internal Service Fund
Assets	
Current assets:	
Cash and cash equivalents	\$ 217,007
Accounts receivable	14,970
Due from other governmental units	10,210
Due from other funds	205,316
Prepaid items	104,755
	<hr/>
Total current assets	552,258
	<hr/>
Liabilities	
Current liabilities:	
Due to other funds	20,000
Compensated absences payable within one year	62,281
	<hr/>
Total current liabilities	82,281
Noncurrent liabilities:	
Compensated absences, net of current portion	199,700
	<hr/>
Total liabilities	281,981
	<hr/>
Net assets	
Unrestricted	\$ 270,277
	<hr/> <hr/>

The accompanying notes are an integral part of these financial statements.

KENT INTERMEDIATE SCHOOL DISTRICT

Statement of Revenues, Expenses and Changes in Fund Net Assets Internal Service Fund

For the Year Ended June 30, 2008

	Internal Service Fund
Operating revenues	
Charges for services	<u>\$ 2,993,217</u>
Operating expenses	
Personnel services	2,924,775
Supplies	<u>66,284</u>
Total operating expenses	<u>2,991,059</u>
Operating income	2,158
Non operating revenues	
Interest income	<u>13,552</u>
Change in net assets	15,710
Net assets, beginning of year	<u>254,567</u>
Net assets, end of year	<u><u>\$ 270,277</u></u>

The accompanying notes are an integral part of these financial statements.

KENT INTERMEDIATE SCHOOL DISTRICT

Statement of Cash Flows Internal Service Fund

For the Year Ended June 30, 2008

	Internal Service Fund
Cash flows from operating activities	
Receipts from interfund services provided	\$ 3,001,302
Payments to employees	(2,939,687)
Payments to vendors	(96,144)
	<hr/>
Net cash used in operating activities	(34,529)
 Cash flows from non-capital financing activities	
Due from other funds	(204,037)
 Cash flows from investing activities	
Interest earned on investments	13,552
	<hr/>
Net decrease in cash and cash equivalents	(225,014)
 Cash and cash equivalents, beginning of year	442,021
	<hr/>
Cash and cash equivalents, end of year	<u><u>\$ 217,007</u></u>
 Cash flows from operating activities	
Operating income	\$ 2,158
 Adjustments to reconcile operating income to net cash provided by operating activities:	
Changes in operating assets and liabilities which provided (used) cash:	
Accounts receivable	1,226
Due from other governmental units	(10,210)
Prepaid items	(12,923)
Accounts payable	(29,860)
Due to other funds	17,069
Compensated absences	(1,989)
	<hr/>
Net cash used in operating activities	<u><u>\$ (34,529)</u></u>

The accompanying notes are an integral part of these financial statements.

KENT INTERMEDIATE SCHOOL DISTRICT

Statement of Net Assets Fiduciary Funds

January 0, 1900

	Private Purpose Trust Robert Scutt Fund	Agency Fund
Assets		
Cash and cash equivalents	\$ 133,466	\$ 228,214
Due from other governmental units	-	13,960
Total assets	133,466	\$ 242,254
Liabilities		
Accounts payable	-	\$ 5,028
Due to other governmental units	-	237,226
Total liabilities	-	\$ 242,254
Net assets		
Restricted for scholarships	112,083	
Unrestricted	21,383	
Total net assets	\$ 133,466	

The accompanying notes are an integral part of these financial statements.

KENT INTERMEDIATE SCHOOL DISTRICT

Statement of Changes in Net Assets Private Purpose Trust Fund

For the Year Ended June 30, 2008

	Robert Scutt Fund
Additions	
Contributions	<u>\$ 5,132</u>
Change in net assets	5,132
Net assets held in trust	
Beginning of year	<u>128,334</u>
End of year	<u><u>\$ 133,466</u></u>

The accompanying notes are an integral part of these financial statements.

KENT INTERMEDIATE SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting entity

Kent Intermediate School District (the “District” or the “government”) was created by state law and is governed by a five-member Board of Education elected by member districts. The District has followed the guidelines of the Governmental Accounting Standards Board’s Statement No. 14 and has determined that no entities should be included in its basic financial statements as component units. Therefore, the reporting entity consists of the primary government financial statements only. The criteria for including a component unit include significant operational or financial relationships with the District.

B. Government-wide and fund financial statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from fiduciary activities which are utilized to account for the assets of other entities for which the District acts in an agency capacity. The District had no *business-type activities* during the year ended June 30, 2008.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported as *general revenues*.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements.

Major individual governmental funds are reported as separate columns in the fund financial statements.

C. Measurement focus, basis of accounting, and financial statement presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the fiduciary fund financial statements, except for agency funds, which do not have a measurement focus. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

KENT INTERMEDIATE SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

Governmental fund financial statements are reported using the *current financial resources measurement* focus and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers property tax revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes received within 60 days of year end, expenditure driven grant revenue and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the District.

The District reports the following major governmental funds:

The *General Fund* is the District's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The *Special Education Fund* accounts for monies received from federal, state and local sources which are restricted to instruction and services related to providing special education.

The *Career Technical Education Fund* accounts for monies received from federal, state and local sources which are restricted to instruction and services related to providing career technical education.

The *Capital Projects Fund – Special Education* accounts for accumulation and disbursement of resources for the acquisition or construction of capital assets as they relate to the Special Education program.

Additionally, the District reports the following fund types:

The *Capital Projects Funds* account for accumulation and disbursement of resources for the acquisition or construction of capital assets.

The *Debt Service Fund* accounts for accumulation and disbursement of resources for debt service on the Durant bonds which are payable only by state appropriation.

The *Internal Service Fund* accounts for earned, but unused, sick, vacation, and termination benefits that the ISD may be liable for upon employee retirement or termination. This fund also accounts for print shop activities and employee health insurance benefits.

The *Agency Fund* accounts for assets held for other groups and organizations and is custodial in nature.

The *Private-Purpose Trust Fund* accounts for amounts entrusted to the District for scholarship awards.

KENT INTERMEDIATE SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the government-wide financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board.

Amounts reported as *program revenues* include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions. Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include all taxes, unrestricted grants and interest income.

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, then unrestricted resources as they are needed.

D. Assets, liabilities and net assets or equity

1. Deposits and investments

The District's cash and cash equivalents include cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

Investments are reported at fair value.

Michigan law authorizes the District to deposit and invest in:

- (a) Bonds, bills, or notes of the United States; obligations, the principal and interest of which are fully guaranteed by the United States; or obligations of the State. In a primary or fourth class school district, the bonds, bills, or notes shall be payable at the option of the holder upon not more than 90 days notice or, if not so payable, shall have maturity dates not more than 5 years after the purchase dates
- (b) Certificates of deposit insured by a State or national bank, savings accounts of a state or federal savings and loan association, or certificates of deposit or share certificates of a state or federal credit union organized and authorized to operate in this State.
- (c) Commercial paper rated prime at the time of purchase and maturing not more than 270 days after the date of purchase.
- (d) Securities issued or guaranteed by agencies or instrumentalities of the United States government or federal agency obligation repurchase agreements, and bankers' acceptance issued by a bank that is a member of the federal deposit insurance corporation.
- (e) Mutual funds composed entirely of investment vehicles that are legal for direct investment by a school district.
- (f) Investment pools, as authorized by the surplus funds investment pool act, composed entirely of instruments that are legal for direct investment by a school district.

KENT INTERMEDIATE SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

2. *Receivables and payables*

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as “due to/from other funds”.

3. *Inventories and prepaid items*

Inventories, which consist of supplies and lots held for construction are valued at cost. Inventories are recorded as expenditures when consumed rather than when purchased.

Payments made to vendors for services that will benefit periods beyond the District’s fiscal year-end are recorded as prepaid items in both government-wide and fund financial statements.

4. *Capital assets*

Capital assets, which include property and equipment, are reported in the governmental activities column in the government-wide financial statements. Capital assets are defined by the District as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Building renovations are capitalized if the cost is greater than \$50,000 per renovation.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Capital assets of the District are depreciated using the straight line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings	20-50
Equipment	5-15
Vehicles	5-10

5. *Compensated absences*

It is the District’s policy to permit employees to accumulate earned but unpaid vacation, sick pay and termination benefits. All employee benefits are accrued when earned in the internal service fund.

KENT INTERMEDIATE SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

6. *Long-term obligations*

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs during the current period. The face amount of debt issued is reported as other financing sources. Premiums received in debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual proceeds received, are reported as debt service expenditures.

In the government-wide financial statements, long-term obligations are reported as liabilities in the governmental activities statement of net assets. Where applicable, bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the straight line method which approximates the effective interest method.

Durant Related Issues

Under Public Act 142 of 1997, enacted in November 1997 as part of the Durant Resolution Package, school districts and intermediate school districts were offered settlement amounts to settle, compromise, and resolve, in their entirety, any potential claims they may have asserted for violations of section 29, Article IX, of the constitution through September 30, 1997, which were similar to the claims asserted by the plaintiffs in the Durant v. State of Michigan case. To be eligible to receive its offer of settlement amount, the non-plaintiff district needed to adopt and submit to the State Treasurer a waiver resolution, in the form set forth in Public Act 142 of 1997, waiving any potential claims through September 30, 1997.

Settlement amounts were based on the formula used to determine amounts owed to Durant plaintiffs. Half the settlement amount was to be received in ten annual payments; the other half was received in a lump sum by participating in a special bonding program offered through the Michigan Municipal Bond Authority (MMBA) or in fifteen annual payments. Kent Intermediate School District elected to participate in the special bonding program.

Districts electing to bond under the Durant settlement received a lump sum amount (bond proceeds) on November 24, 1998. This created a liability which will be reduced each year with an annual state appropriation made for debt service on the bonds. The annual State of Michigan appropriation is the only revenue source for making the annual debt service payment on the bonds. If the legislature fails to appropriate the funds, the district is under no obligation for payment. Additionally, the bond documentation states specifically that the Bonds shall not be in any way a debt or liability of the State of Michigan. This liability has been booked on the statement of net assets. Annual appropriations from the State are recorded in the Durant Debt Service Fund along with the payment of the interest and principal of the bonds.

The original bond proceeds were recorded in the Durant Construction Fund and expended for purposes specified in Section 1351a of the Revised School Code.

The remaining 50% of the settlement which is being received over ten years, beginning April 1999, is recorded in the General Fund as Unrestricted State School Aid. Use of these funds is restricted to specified purposes.

KENT INTERMEDIATE SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

7. *Fund equity*

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

II. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Budgetary information

The General and Special Revenue Funds are under formal budgetary control. Budgets adopted by the District are adopted on a basis consistent with generally accepted accounting principles (GAAP). Budgets displayed in the financial statements consist of those amounts contained in the formal budget as originally adopted or as amended by the Board of Education. The budgets for the General and Special Revenue Funds are adopted at the program level. All annual appropriations lapse at fiscal year end.

The District follows these procedures in establishing the budgetary data reflected in the financial statements:

1. The Superintendent submits to the Board a proposed operating budget for the fiscal year commencing the following July 1.
2. Public hearings are conducted to obtain local district comments.
3. The budget is legally enacted through passage of a resolution.
4. Formal budgetary integration is employed as a management control device during the year for all funds except for internal service funds.
5. Adoption and amendments of all budgets used by the District are governed by Public Act 621, which was followed for the year ended June 30, 2008. Expenditures may not exceed appropriations at the function level (the legal level of budgetary control). The appropriations resolutions are based on the projected expenditures budget of the District. Any amendment to the original budget must meet the requirements of Public Act 621.

KENT INTERMEDIATE SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

B. Excess of Expenditures over Appropriations in Budgetary Funds

During the year ended June 30, 2008, the District incurred expenditures in certain budgetary funds which were in excess of the amounts appropriated, as follows:

	<u>Total Appropriations</u>	<u>Amount of Expenditures</u>	<u>Budget Variance</u>
General Fund			
Supporting services:			
General administration	\$ 625,760	\$ 643,590	\$ 17,830
Transfers out	312,312	314,048	1,736
Special Education Fund			
Supporting services:			
Transportation services	19,507,793	21,623,980	2,116,187
Career Technical Education Fund			
Supporting services:			
School administration	1,448,932	1,506,335	57,403
Community service	-	5	5

The variance in transportation services is due to delayed invoicing from a third party. This expense is a direct bill to local districts and is offset by corresponding revenue with no effect on fund balance. The invoice process has been changed for 2008-09 school year.

III. DETAILED NOTES ON ALL FUNDS

A. Cash and Investments

The captions on the financial statements relating to cash and cash equivalents and investments are as follows:

	<u>Governmental Activities</u>	<u>Fiduciary Funds</u>	<u>Total</u>
Cash and cash equivalents	\$20,617,720	\$361,680	\$20,979,400
Investments	11,241,094	-	11,241,094
Total	\$31,858,814	\$361,680	\$32,220,494

These deposits are in two (2) financial institutions located in Michigan. State policy limits the District's investing options to financial institutions located in Michigan. All accounts are in the name of the District and a specific fund or common account. They are recorded in District records at fair value.

The District's cash and investments are comprised of the following:

Checking/savings accounts	\$ 4,069,836
Investments	28,150,658
Total	\$32,220,494

KENT INTERMEDIATE SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

The District chooses to disclose its investments by specifically identifying each. As of year-end, the District had the following investments:

	<u>Maturity</u>	<u>Fair Value</u>	<u>Rating</u>
JP Morgan Chase Sweep Investments	n/a	\$ 20,856,938	AAA Moody
Huntington Premier Money Market	n/a	2,699,480	Not rated
Huntington Money Market IV	n/a	571,797	AAA S&P
Bank of America Public Funds Money Market	n/a	170,803	AA S&P
Federal Home Loan Bank	08/13/2009	199,062	AAA S&P
Federal Farm Credit Bank	03/18/2010	599,814	AAA S&P
Federal Farm Credit Bank	03/18/2010	249,922	AAA S&P
Federal Farm Credit Bank	03/18/2010	219,932	AAA S&P
Federal Farm Credit Bank	03/18/2010	74,977	AAA S&P
Federal Farm Credit Bank	03/18/2010	49,985	AAA S&P
Federal Home Loan Bank	03/25/2010	217,114	AAA S&P
Federal National Mortgage Assn.	04/28/2010	299,343	AAA S&P
Federal Home Loan Bank	07/08/2010	628,034	AAA S&P
Federal Home Loan Bank	10/15/2010	793,752	AAA S&P
Federal Home Loan Bank	10/29/2010	298,782	AAA S&P
Federal National Mortgage Assn.	04/01/2011	<u>220,923</u>	AAA S&P
		<u>\$ 28,150,658</u>	

Investment and Deposit Risk

Interest Rate Risk. State law limits the allowable investments and the maturities of some of the allowable investments as identified in Note 1 of the summary of significant accounting policies. The District's investment policy does not have specific limits in excess of state law on investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. The maturity dates for each investment are identified above for investments held at year-end.

Credit Risk. State law limits investments to specific government securities, certificates of deposits and bank accounts with qualified financial institutions, commercial paper with specific maximum maturities and ratings when purchased, bankers acceptances of the District's specific financial institutions, qualified mutual funds and qualified external investment pools as identified in Note 1 (summary of significant accounting policies). The investment policy does not have specific limits in excess of state law on investment credit risk. The ratings for each investment are identified above for investments held at year-end.

Custodial Credit Risk – Deposits. Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned. The District minimizes this risk by pre-qualifying the financial institutions, broker/dealers, intermediaries, and advisors to be in compliance with the requirements set forth in the District's investment policy. As of year-end, \$5,138,631 of the District's bank balance of \$5,338,631 was exposed to custodial credit risk because it was uninsured and uncollateralized.

KENT INTERMEDIATE SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

Custodial Credit Risk – Investments. For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. State law does not require and the District does not have a policy for investment custodial credit risk. Of the above \$28,150,658 in investments the District has a custodial credit risk exposure of \$24,708,578 because the related securities are uninsured, unregistered and held in the counterparty's trust department's name.

Concentration of Credit Risk – Investments. State law limits allowable investments but does not limit concentration of credit risk as identified in Note 1 of the summary of significant accounting policies. The District's investment policy does not have specific limits in excess of state law on concentration of credit risk. All investments held at year end are reported above.

B. Capital assets

Capital asset activity for the year ended June 30, 2008 was as follows:

	Balance July 1, 2007	Increases	Decreases	Balance June 30, 2008
Governmental activities				
Capital assets, not being depreciated:				
Land	\$ 474,740	\$ 797,233	\$ -	\$ 1,271,973
Construction in progress	420,732	3,503,428	(719,824)	3,204,336
Total capital assets, not being depreciated	895,472	4,300,661	(719,824)	4,476,309
Capital assets, being depreciated:				
Buildings and structures	43,972,143	335,394	-	44,307,537
Furniture and equipment	13,290,057	1,132,385	(107,579)	14,314,863
Vehicles	595,405	62,536	-	657,941
Total capital assets, being depreciated	57,857,605	1,530,315	(107,579)	59,280,341
Less accumulated depreciation for:				
Buildings and structures	18,220,608	1,183,345	-	19,403,953
Furniture and equipment	6,830,687	1,048,857	(107,579)	7,771,965
Vehicles	513,795	39,251	-	553,046
Total accumulated depreciation	25,565,090	2,271,453	(107,579)	27,728,964
Net capital assets, being depreciated	32,292,515	(741,138)	-	31,551,377
Net governmental activities capital assets	\$ 33,187,987	\$ 3,559,523	\$ (719,824)	\$ 36,027,686

KENT INTERMEDIATE SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

Depreciation expense was charged to functions/programs of the primary government as follows:

Governmental activities

Instruction	\$ 885,867
Supporting services	340,718
Unallocated depreciation	<u>1,044,868</u>

Total depreciation expense – governmental activities **\$ 2,271,453**

C. Interfund receivables, payables and transfers

The composition of interfund balances as of June 30, 2008, is as follows:

	<u>Due From Other Funds</u>	<u>Due To Other Funds</u>
Major Governmental Funds		
General Fund	\$ 20,000	\$ 206,491
Special Education	10,694	562
Career Technical Education	-	8,957
Internal Service Fund	<u>205,316</u>	<u>20,000</u>
Total	<u>\$ 236,010</u>	<u>\$ 236,010</u>

Interfund balances represent short-term borrowings between funds for cash flow purposes.

Transfers are used to: (1) move revenues from the fund that is required to collect them to the fund that is required or allowed to expend them; (2) move receipts restricted to or allowed for debt service from the funds collecting the receipts to the debt service fund as debt service payments become due; and (3) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

The composition of transfers for the year ended June 30, 2008 is as follows:

	<u>Transfers In</u>	<u>Transfers Out</u>
Major Governmental Funds:		
General	\$1,853,193	\$ 314,048
Special Education	-	4,355,427
Career Technical Education	426,958	1,320,676
Capital Projects – Special Education	3,200,000	100,000
Nonmajor Governmental Funds	<u>1,220,000</u>	<u>610,000</u>
Total	<u>\$6,700,151</u>	<u>\$6,700,151</u>

KENT INTERMEDIATE SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

D. Operating Leases

The District leases equipment under noncancellable operating leases expiring through 2012. Total costs for such leases were \$191,294 for the current year. The future minimum lease payments for these leases are as follows:

<u>Years Ending June 30</u>	<u>Total</u>
2009	\$ 190,010
2010	190,010
2011	190,010
2012	14,292
Total	<u>\$ 584,322</u>

E. Long-term liabilities

Long-term liability activity for the year ended June 30, 2008, was as follows:

	<u>Balance July 1, 2007</u>	<u>Additions</u>	<u>(Deletions)</u>	<u>Balance June 30, 2008</u>	<u>Due in One Year</u>
1998 School Improvement Revenue Bonds (Durant Settlement), \$509,250 issued, due in amounts ranging from \$27,053 through \$142,440 plus interest at 4.8% payable through 2013 (payable only by an annual State of Michigan appropriation to the District)	\$300,693	\$ -	\$ -	\$300,693	\$ 28,341
Compensated absences/severance pay	263,970	50,914	(52,903)	261,981	62,281
Total long-term liabilities	<u>\$564,663</u>	<u>\$ 50,914</u>	<u>\$(52,903)</u>	<u>\$562,674</u>	<u>\$ 90,622</u>

Compensated absences and the early retirement incentive are generally liquidated from the general, special education and career technical education funds.

Annual debt service requirements to maturity for the revenue bonds are as follows:

<u>Year Ended June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2009	\$ 28,341	\$ 7,421	\$ 35,762
2010	174,531	65,742	240,273
2011	31,104	4,658	35,762
2012	32,583	3,177	35,760
2013	34,134	1,625	35,759
Totals	<u>\$ 300,693</u>	<u>\$ 82,623</u>	<u>\$ 383,316</u>

KENT INTERMEDIATE SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

IV. OTHER INFORMATION

A. Public entity risk (insurance) pool self-insurance plan

Kent ISD participates in a public entity insurance pool with other governmental units in the West Michigan Health Insurance Pool (a non-profit corporation). This is a self-insurance fund which provides members with health insurance benefits. The pool was created on July 1, 2005 and organized under Public Act 138 of 1982, as amended, as a governmental group self-insurance pool. Kent ISD began participation in this pool on September 1, 2005. There were no significant reductions in coverage and settlements did not exceed insurance coverage during the fiscal year ended June 30, 2008.

The pool does not maintain separate funds for members and consequently the District's share of the total assets and equity is unknown. Audited financial statements of the fund are available.

B. Risk management

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During the year ended June 30, 2008, the District carried insurance to cover all risks of losses. The District has had no settled claims resulting from these risks that exceeded their commercial coverage in any of the past three fiscal years.

C. Property taxes

Property taxes are assessed as of December 31, and attach as an enforceable lien on property as of July 1 or December 1 of the following year by the various governmental units within the District. Delinquent real taxes are advanced to the District by the Revolving Tax Funds of the counties within the District.

D. Defined benefit pension plan

Plan Description

The District contributes to the Michigan Public School Employees Retirement System (MPERS), a cost-sharing multiple-employer defined benefit pension plan administered by the State of Michigan Department of Management and Budget, Office of Retirement Systems. MPERS provides retirement, survivor and disability benefits, and death benefits to plan members and beneficiaries. Benefit provisions are established and must be amended by state statute.

The Office of Retirement Systems issues a publicly available financial report that includes financial statements and required supplementary information for MPERS. That report may be obtained by writing to Michigan Public School Employees Retirement System, 7150 Harris Drive, P.O. Box 30171, Lansing, Michigan, 48909 or by calling 1-800-381-5111.

KENT INTERMEDIATE SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

Funding Policy

Member Investment Plan (MIP) members enrolled in MIP prior to January 1, 1990 contribute at a permanently fixed rate of 3.9% of gross wages. Members first hired January 1, 1990 or later contribute at the following graduated permanently fixed contribution rate: 3% of the first \$5,000; 3.6% of \$5,001 through \$15,000; 4.3% of all wages over \$15,000. Basic Plan members make no contributions. The District is required to contribute the full actuarial funding contribution amount to fund pension benefits, plus an additional amount to fund retiree health care benefits on a cash disbursement basis.

The rate from July to September was 17.74% and was 16.72% from October to June of covered payroll. The contribution requirements of plan members and the District are established by Michigan State statute and may be amended only by action of the State Legislature. The District's contributions to MPSERS for the years ended June 30, 2008, 2007, and 2006 were \$8,052,742, \$8,186,551, and \$7,319,425, respectively, equal to the required contributions for each year.

Other Postemployment Benefits

Retirees have the option of health coverage which is funded as part of the above pension contribution. The State of Michigan has contracted to provide the comprehensive group medical, hearing, dental and vision coverages for retirees and beneficiaries. All health care benefits are on a self-funded basis. A significant portion of the premium is paid by MPSERS with the balance deducted from the monthly pension.

Pension recipients are eligible for fully paid Master Health Plan coverage and 90% paid Dental Plan, Vision Plan and Hearing Plan coverage with the following exceptions:

1. Retirees not yet eligible for Medicare coverage pay an amount equal to the Medicare Part B premiums.
2. Retirees with less than 30 years of service, who terminate employment after October 31, 1980 with the vested deferred benefits, are eligible for partially employer paid health benefit coverage (no payment if less than 21 years of service).

E. Commitments

The District has contracts outstanding for remaining costs of approximately \$8,139,286 for various construction projects.

F. Contingencies

Federal Grant Programs

The District participates in federally assisted grant programs, which are subject to program compliance audits by the grantor or its representatives. Such audits of these programs may be performed at some future date. The amount, if any, of expenditures which may be disallowed by the granting agencies cannot be determined at this time, although the District expects such amounts, if any, not to be material.

KENT INTERMEDIATE SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

G. Subsequent Event

Subsequent to year-end, the District purchased a building for its Career Technical Education program in the amount of \$2,550,000 which was purchased with existing funds.

* * * * *

**COMBINING AND INDIVIDUAL FUND
FINANCIAL STATEMENTS**

KENT INTERMEDIATE SCHOOL DISTRICT

Combining Balance Sheet Nonmajor Governmental Funds

June 30, 2008

	Capital Projects		Debt Service	
	General Education	Career Technical Education	Durant	Total
Assets				
Cash and cash equivalents	\$ 528,945	\$ 394,129	\$ -	\$ 923,074
Investments	245,867	867,211	-	1,113,078
Due from other governmental units	-	-	361,291	361,291
Prepaid items	-	975,000	-	975,000
Total assets	<u>\$ 774,812</u>	<u>\$ 2,236,340</u>	<u>\$ 361,291</u>	<u>\$ 3,372,443</u>
Liabilities and fund balances				
Liabilities				
Accounts payable	\$ 259,091	\$ 144,261	\$ -	\$ 403,352
Deferred revenue	-	-	361,291	361,291
Total liabilities	<u>259,091</u>	<u>144,261</u>	<u>361,291</u>	<u>764,643</u>
Fund balances				
Reserved for:				
Prepaid items	-	975,000	-	975,000
Unreserved:				
Designated - Aviation facility	-	122,550	-	122,550
Designated - ESC Project	59,774	-	-	59,774
Designated - Campus roads parking	30,000	360,000	-	390,000
Undesignated	425,947	634,529	-	1,060,476
Total fund balance	<u>515,721</u>	<u>2,092,079</u>	<u>-</u>	<u>2,607,800</u>
Total liabilities and fund balances	<u>\$ 774,812</u>	<u>\$ 2,236,340</u>	<u>\$ 361,291</u>	<u>\$ 3,372,443</u>

KENT INTERMEDIATE SCHOOL DISTRICT

Combining Statement of Revenues, Expenditures and Changes in Fund Balances Nonmajor Governmental Funds

For the Year Ended June 30, 2008

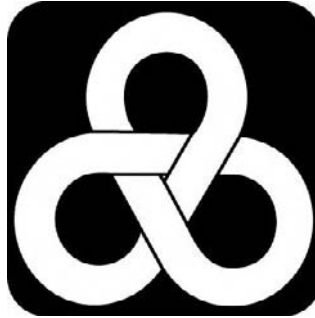
	Capital Projects		Debt	
	General	Career	Service	
	Education	Technical	Durant	Total
		Education		
Revenues				
Local sources	\$ 19,309	\$ 69,411	\$ -	\$ 88,720
State sources	-	50,925	-	50,925
Total revenues	19,309	120,336	-	139,645
Expenditures				
Capital outlay	1,563,971	633,939	-	2,197,910
Revenues over (under) expenditures	(1,544,662)	(513,603)	-	(2,058,265)
Other financing uses				
Transfers in	1,220,000	-	-	1,220,000
Transfers out	-	(610,000)	-	(610,000)
Total other financing uses	1,220,000	(610,000)	-	610,000
Net changes in fund balances	(324,662)	(1,123,603)	-	(1,448,265)
Fund balances, beginning of year	840,383	3,215,682	-	4,056,065
Fund balances, end of year	\$ 515,721	\$ 2,092,079	\$ -	\$ 2,607,800

KENT INTERMEDIATE SCHOOL DISTRICT

Statement of Changes in Assets and Liabilities Agency Fund

For the Year Ended June 30, 2008

	Balance				Balance
	June 30, 2007	Additions	Deductions		June 30, 2008
Assets					
Cash and cash equivalents	\$ 217,874	\$ 2,282,272	\$ 2,271,932	\$	228,214
Accounts receivable	710	29,188	29,818		80
Due from other governmental units	-	20,633	6,673		13,960
Total assets	\$ 218,584	\$ 2,332,093	\$ 2,308,423	\$	242,254
Liabilities					
Accounts payable	\$ -	\$ 2,239,565	\$ 2,234,537	\$	5,028
Due to other governmental units	218,584	48,914	30,272		237,226
Due to other funds	-	43,614	43,614		-
Total liabilities	\$ 218,584	\$ 2,332,093	\$ 2,308,423	\$	242,254



KENT INTERMEDIATE SCHOOL DISTRICT

SINGLE AUDIT REPORT

FOR THE YEAR ENDED JUNE 30, 2008



REHMANN ROBSON

Certified Public Accountants

KENT INTERMEDIATE SCHOOL DISTRICT

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REHMANN ROBSON

Certified Public Accountants

A member of THE REHMANN GROUP

**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

November 12, 2008

Board of Education
Kent Intermediate School District
Grand Rapids, Michigan

We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of ***Kent Intermediate School District***, as of and for the year ended June 30, 2008, and have issued our report thereon dated November 12, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Kent Intermediate School District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Kent Intermediate School District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Kent Intermediate School District's internal control over financial reporting.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed in the schedule of findings and questioned costs, we identified a deficiency in internal control over financial reporting that we consider to be a significant deficiency.

A *control deficiency* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles, such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider finding 2008-1 as described in the accompanying schedule of findings and questioned costs to be a significant deficiency in internal control over financial reporting.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we consider item 2008-1 to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Kent Intermediate School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Kent Intermediate School District's response to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit Kent Intermediate School District's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management and the Board of Education, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink, reading "Lehmann Lohman". The signature is written in a cursive, flowing style.



REHMANN ROBSON

Certified Public Accountants

A member of **THE REHMANN GROUP**

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

November 12, 2008

Board of Education
Kent Intermediate School District
Grand Rapids, Michigan

Compliance

We have audited the compliance of ***Kent Intermediate School District***, with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2008. Kent Intermediate School District's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of Kent Intermediate School District's management. Our responsibility is to express an opinion on Kent Intermediate School District's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Kent Intermediate School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of Kent Intermediate School District's compliance with those requirements.

In our opinion, Kent Intermediate School District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2008.

Internal Control Over Compliance

The management of Kent Intermediate School District is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered Kent Intermediate School District's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Kent Intermediate School District's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in the entity's internal control that might be significant deficiencies or material weaknesses as defined below. However, as discussed below, we identified a certain deficiency in internal control over compliance that we consider to be a significant deficiency.

A *control deficiency* in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 2008-2 to be a significant deficiency.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control. However, we do not believe that the significant deficiency described above is a material weakness.

Kent Intermediate School District's response to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit Kent Intermediate School District's response and, accordingly, we express no opinion on it.

Schedule of Expenditures of Federal Awards

We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of Kent Intermediate School District as of and for the year ended June 30, 2008 and have issued our report thereon dated November 12, 2008. Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise Kent Intermediate School District's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

This report is intended solely for the information and use of management, the Board of Education, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.



KENT INTERMEDIATE SCHOOL DISTRICT

Schedule of Expenditures of Federal Awards

For the Year Ended June 30, 2008

Program Title/Project Number/Subrecipient Name	CFDA Number	Approved Award Amount	(Memo Only) Prior Year Expenditures	Accrued or (Deferred) Revenue at July 1, 2007	Federal Funds/ Payments In-kind Received	Expenditures	Accrued or (Deferred) Revenue at June 30, 2008
U.S. Department of Agriculture							
<i>Passed through Michigan State University</i>							
Michigan Nutrition Network FSNE 2007-2008 Bright Beginnings	10.551	\$ 47,125	\$ -	\$ -	\$ 19,336	\$ 45,103	\$ 25,767
Michigan Nutrition Network FSNE 2007-2008 Healthy Schools	10.551	192,627	-	-	-	124,825	124,825
Michigan Nutrition Network FSNE 2006-2007	10.551	60,946	45,617	45,617	59,415	13,798	-
Total Michigan Nutrition Network		300,698	45,617	45,617	78,751	183,726	150,592
U.S. Department of Education							
<i>Passed through the Michigan Department of Education</i>							
Special Education Cluster:							
IDEA Flow Through/State Initiated Department:							
Flow Through 080450-0708	84.027	22,567,424	-	-	15,341,081	22,467,020	7,125,939
Flow Through 070450-0607	84.027	22,099,410	21,611,466	6,474,615	6,847,071	487,944	115,488
Flow Through 060450-0506	84.027	21,894,045	73,967	19,377	19,377	-	-
State Initiated/Competitive 080480-EOSD	84.027A	65,000	-	-	58,914	65,000	6,086
State Initiated/Competitive 080490-TS	84.027A	95,000	-	-	76,087	95,000	18,913
State Initiated/Competitive 070480-EOSD	84.027A	65,000	65,000	3,906	3,906	-	-
State initiated/Competitive 070490-TS	84.027A	115,000	115,000	19,780	19,780	-	-
Total IDEA Flow Through/State Initiated Department		66,900,879	21,865,433	6,517,678	22,366,216	23,114,964	7,266,426
IDEA Preschool:							
Preschool Incentive 080460-0708	84.173	936,309	-	-	631,739	934,838	303,099
Preschool Incentive 070460-0607	84.173	933,653	909,703	280,962	295,411	23,950	9,501
Total IDEA Preschool		1,869,962	909,703	280,962	927,150	958,788	312,600
Total Special Education Cluster		68,770,841	22,775,136	6,798,640	23,293,366	24,073,752	7,579,026
Infant and Toddler Early Intervention Program:							
Service Provider Self Review	84.181	4,000	-	-	4,000	4,000	-
Formula Grant 081340-190	84.181	650,828	-	-	475,440	587,884	112,444
Formula Grant 071340-190	84.181	660,870	623,278	108,603	146,195	37,592	-
Formula Grant 061340-190	84.181	681,044	80,377	21,146	21,146	-	-
Total Infant and Toddler Early Intervention		1,996,742	703,655	129,749	646,781	629,476	112,444
Title V :							
Innovative Education Program 080250-0708	84.298	47,944	-	-	32,130	34,002	1,872
Innovative Education Program 070250-0607	84.298	45,949	38,935	14,324	14,324	-	-
Innovative Education Program 060250-0607	84.298	16,302	13,966	(296)	(296)	-	-
Total Title V		110,195	52,901	14,028	46,158	34,002	1,872
Title I:							
Regional Assistance Grants 081570-0708	84.010	1,260,000	-	-	445,969	629,004	183,035
Regional Assistance Grants 061570-0607	84.010	630,000	114,219	114,219	556,940	447,561	4,840
Total Title I		1,890,000	114,219	114,219	1,002,909	1,076,565	187,875
Title II D:							
Enhancing Education through Technology 074240	84.318X	200,000	183,727	-	-	16,273	16,273
Safe and Drug Free Schools and Communities:							
Drug Free Formula 082860/0708	84.186	362,409	-	-	67,146	238,214	171,068
Drug Free Formula 072860/0607	84.186	349,058	226,075	86,929	127,113	122,991	82,807
Drug Free Formula 062860/0607	84.186	109,205	109,205	44,494	44,494	-	-
Total Safe and Drug Free Schools and Communities		820,672	335,280	131,423	238,753	361,205	253,875
Carl D. Perkins Vocational and Applied Technology							
Education Act of 1990:							
Regional Allocation-Special Needs 083520/801213	84.048A	1,296,146	-	-	1,069,951	1,296,146	226,195
Regional Allocation-Special Needs 073520/701213	84.048A	1,244,936	1,244,936	244,336	244,336	-	-
Total Carl D. Perkins Vocational and Applied Technology		2,541,082	1,244,936	244,336	1,314,287	1,296,146	226,195
<i>Passed through Grand Valley State University</i>							
Kent Can 07/08	84.027A	35,000	-	-	17,500	16,107	(1,393)
Kent Can 06/07	84.027A	35,000	20,097	(14,903)	-	14,903	-
Total Kent Can		70,000	20,097	(14,903)	17,500	31,010	(1,393)

continued...

KENT INTERMEDIATE SCHOOL DISTRICT

Schedule of Expenditures of Federal Awards (Concluded)

For the Year Ended June 30, 2008

Program Title/Project Number/Subrecipient Name	CFDA Number	Approved Award Amount	(Memo Only) Prior Year Expenditures	Accrued or (Deferred) Revenue at July 1, 2007	Federal Funds/ Payments In-kind Received	Expenditures	Accrued or (Deferred) Revenue at June 30, 2008
<i>Passed through Kalamazoo Regional Education Center</i>							
Reading First 072910-0607	84.357A	\$ 39,309	\$ 39,309	\$ 11,975	\$ 11,975	\$ -	\$ -
Reading First 082910-0708	84.357A	38,542	-	-	30,345	38,807	8,462
Total Reading First		77,851	39,309	11,975	42,320	38,807	8,462
<i>Passed through Grand Rapids Community College</i>							
Tech Prep Grant 07/08	84.243	79,823	-	-	52,430	79,823	27,393
Tech Prep Grant 06/07	84.243	83,220	83,220	31,302	31,358	-	(56)
Total Tech Prep Grant		163,043	83,220	31,302	83,788	79,823	27,337
Total U.S. Department of Education		76,640,426	25,552,480	7,460,769	26,685,862	27,637,059	8,411,966
U.S. Department of Labor							
<i>Passed through ACSET</i>							
Education Advisory Group	17.259	41,000	-	-	28,896	41,000	12,104
WIA Youth 07/08	17.259	379,665	-	-	318,491	379,665	61,174
WIA Youth 06/07	17.259	409,222	318,357	94,395	94,473	-	(78)
Total U.S. Department of Labor		829,887	318,357	94,395	441,860	420,665	73,200
Corporation for National and Community Service							
<i>Passed through the Michigan Department Health and Human</i>							
Learn and Serve-Michigan 07/08	94.004	40,000	-	-	-	40,000	40,000
Learn and Serve-Michigan 06/07	94.004	40,000	36,880	34,691	37,811	3,120	-
Total Corporation for National and Community Service		80,000	36,880	34,691	37,811	43,120	40,000
U.S. Department of Health and Human Services							
<i>Passed through the Michigan Department of Education</i>							
Medicaid Outreach:							
Medicaid Outreach	93.778	N/A	19,869	(2,619,104)	816,491	29,557	(3,406,038)
School Based Medicaid 07/08	93.778	247,796	-	-	247,796	247,796	-
Total U.S. Department of Health and Human Services		247,796	19,869	(2,619,104)	1,064,287	277,353	(3,406,038)
Total Expenditures of Federal Awards		\$ 78,098,807	\$ 25,973,203	\$ 5,016,368	\$ 28,308,571	\$ 28,561,923	\$ 5,269,720

KENT INTERMEDIATE SCHOOL DISTRICT

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE YEAR ENDED JUNE 30, 2008

Basis of Accounting

Cash received is recorded on the cash basis; expenditures are recorded on the modified accrual basis of accounting. Revenues are recognized when the qualifying expenditures have been incurred and all grant requirements have been met.

Expenditures are in agreement with amounts reported in the basic financial statements. Management has utilized the Grants Section Auditors Report (form R7120) and the Grant Auditor Report in preparing the Schedule of Expenditures of Federal Awards. The Medicaid Outreach Funds which have been deferred at year end are subject to final allowable cost review (back casting). This balance will be recognized as revenue upon completion of the review process.

Reconciliation of Basic Financial Statements

Revenues from federal sources per the June 30, 2008 financial statements agree with federal revenues from the June 30, 2008 Schedule of Expenditures of Federal Awards.

Medicaid Administrative Outreach

The following summarizes the financial activity related to Medicaid Administrative Outreach funding that has been deferred in the District's financial statements:

Deferred revenue – July 1, 2007	\$ 2,619,104
Revenue deferred during the year	<u>786,934</u>
Deferred revenue – June 30, 2008	<u>\$ 3,406,038</u>

The amounts deferred are the result of possible repayments that may be made in the future resulting from the back casting process. The District will be evaluating past history related to these funds and a reasonable proration will be distributed to the local districts during the fiscal year ending June 30, 2009.

KENT INTERMEDIATE SCHOOL DISTRICT
SCHEDULE OF SUBRECIPIENT EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2008

Program Title/Project Number/Subrecipient Name	CFDA Number	Current Year Cash Transferred to Subrecipient
CLUSTERS		
U.S. DEPARTMENT OF EDUCATION		
<i>Passed through the Michigan Department of Education:</i>		
Special Education Fund		
IDEA Flow Through		
Flow Through 070450-06/07:	84.027	
Passed through to:		
Byron Center Academy		\$ 1,267
Byron Center Public Schools		94,987
Caledonia Community Schools		156,769
Cedar Springs Public Schools		229,465
Chandler Woods Charter Academy		23,924
Comstock Park Public Schools		147,297
Creative Technologies Academy		15,685
Cross Creek Charter Academy		26,076
East Grand Rapids Public Schools		164,665
Excel Charter Academy		32,423
Forest Hills Public Schools		733,382
Godfrey-Lee Public Schools		107,050
Godwin Heights Public Schools		175,411
Grand Rapids Child Discovery Center		4,389
Grand Rapids Public Schools		1,608,378
Grandville Public Schools		321,375
Horizons High School		10,728
Kelloggsville Public Schools		107,771
Kenowa Hills Public Schools		294,220
Kent City Community Schools		66,466
Kentwood Public Schools		451,248
Knapp Charter Academy		33,760
Lowell Area Schools		246,394
New Branches Academy		2,505
Northview Public Schools		233,652
Ridge Park Academy		33,041
Rockford Public Schools		337,095
Thornapple-Kellogg Public Schools		140,590
Vanguard Academy		30,156
Vista Charter Academy		35,027
Walker Charter Academy		25,486
William C. Abney Academy		18,892
West Michigan Academy of Environmental Science		25,443
Wyoming Public Schools		395,036
Total Flow Through 070450-06/07		6,330,053
continued....		

KENT INTERMEDIATE SCHOOL DISTRICT
SCHEDULE OF SUBRECIPIENT EXPENDITURES OF FEDERAL AWARDS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2008

Program Title/Project Number/Subrecipient Name	CFDA Number	Current Year Cash Transferred to Subrecipient
Flow Through 080450-07/08:	84.027	
<i>Passed through to:</i>		
Byron Center Charter School		\$ 36,526
Byron Center Public Schools		397,316
Caledonia Community Schools		288,423
Cedar Springs Public Schools		405,403
Chandler Woods Charter Academy		69,607
Comstock Park Public Schools		500,547
Creative Technologies Academy		44,976
Cross Creek Charter Academy		57,079
East Grand Rapids Public Schools		254,097
Excel Charter Academy		87,756
Forest Hills Public Schools		1,021,024
Godfrey-Lee Public Schools		167,693
Godwin Heights Public Schools		235,935
Grand Rapids Child Discovery Center		22,998
Grand Rapids Public Schools		5,053,527
Grandville Public Schools		575,503
Horizons High School		23,909
Kelloggsville Public Schools		161,044
Kenowa Hills Public Schools		436,971
Kent City Community Schools		166,474
Kentwood Public Schools		1,071,158
Knapp Charter Academy		92,387
Lowell Area Schools		452,982
New Branches School		21,999
Northview Public Schools		545,589
Ridge Park Academy		89,233
Rockford Public Schools		606,188
Sparta Area Schools		634,477
Thornapple-Kellogg Public Schools		232,131
Vanguard Academy		82,386
Vista Charter Academy		47,616
Walker Charter Academy		81,215
West Michigan Academy of Environmental Science		36,374
William C. Abney Academy		36,694
Wyoming Public Schools		631,103
Total Flow Through 080450-07/08		14,668,340
Total IDEA Flow Through/State Initiated Department		20,998,393

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KENT INTERMEDIATE SCHOOL DISTRICT
SCHEDULE OF SUBRECIPIENT EXPENDITURES OF FEDERAL AWARDS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2008

Program Title/Project Number/Subrecipient Name	CFDA Number	Current Year Cash Transferred to Subrecipient
IDEA Preschool:		
Preschool Incentive 070460-06/07:	84.173	
<i>Passed through to:</i>		
Byron Center Public Schools		\$ 6,401
Caledonia Community Schools		7,097
Cedar Springs Public Schools		7,090
Chandler Woods Charter Academy		246
Comstock Park Public Schools		6,373
Cross Creek Charter Academy		984
East Grand Rapids Public Schools		6,063
Excel Charter Academy		389
Forest Hills Public Schools		24,823
Godfrey-Lee Public Schools		5,976
Godwin Heights Public Schools		10,165
Grand Rapids Public Schools		78,521
Grandville Public Schools		15,644
Kelloggsville Public Schools		4,569
Kenowa Hills Public Schools		8,802
Kent City Community Schools		1,711
Kentwood Public Schools		26,453
Knapp Charter Academy		96
Lowell Area Schools		10,075
Northview Public Schools		9,025
Ridge Park Academy		1,472
Rockford Public Schools		24,571
Sparta Area Schools		2
Thornapple Kellogg Public Schools		6,660
Vanguard Charter Academy		259
Vista Charter Academy		546
Walker Charter Academy		258
West Michigan Academy of Environmental Science		319
Wyoming Public Schools		20,132
Total Preschool Incentive 070460-06/07		284,722
Preschool Incentive 080460-07/08:	84.173	
<i>Passed through to:</i>		
Byron Center Public Schools		449
Byron Center Public Schools		24,675
Caledonia Community Schools		13,459
Cedar Springs Public Schools		19,101
Comstock Park Public Schools		25,124
East Grand Rapids Public Schools		12,617
Forest Hills Public Schools		30,997
Godfrey-Lee Public Schools		8,092
Godwin Heights Public Schools		14,494
Grand Rapids Public Schools		249,654

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KENT INTERMEDIATE SCHOOL DISTRICT
SCHEDULE OF SUBRECIPIENT EXPENDITURES OF FEDERAL AWARDS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2008

Program Title/Project Number/Subrecipient Name	CFDA Number	Current Year Cash Transferred to Subrecipient
Preschool Incentive 080460-07/08 (Continued):		
Grandville Public Schools		\$ 29,363
Kelloggsville Public Schools		12,549
Kenowa Hills Public Schools		13,429
Kent City Community Schools		6,882
Kentwood Public Schools		39,798
Lowell Area Schools		18,484
Northview Public Schools		21,198
Rockford Public Schools		26,673
Sparta Area Schools		23,778
Thornapple-Kellogg Public Schools		12,619
Wyoming Public Schools		28,398
Total Preschool Incentive 080460-07/08		631,833
Total IDEA Preschool		916,555
State Initiated/Competitive 080490-TS:		
Passed through to:		
Caledonia Community Schools		1,130
East Grand Rapids Public Schools		1,479
Forest Hills Public Schools		1,482
Grand Rapids Public Schools		9,000
Kelloggsville Public Schools		9,000
Kentwood Public Schools		1,500
Lowell Area Schools		1,639
Northview Public Schools		9,000
Thornapple-Kellogg Public Schools		1,500
Total State Initiated/Competitive 080490-TS		35,730
Total Special Education Cluster		21,950,678
		continued...

KENT INTERMEDIATE SCHOOL DISTRICT
SCHEDULE OF SUBRECIPIENT EXPENDITURES OF FEDERAL AWARDS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2008

Program Title/Project Number/Subrecipient Name	CFDA Number	Current Year	
		Cash	Transferred to
			Subrecipient
OTHER AWARDS:			
U.S. DEPARTMENT OF EDUCATION			
<i>Passed through the Michigan Department of Education</i>			
General Education Fund			
Title V			
Innovative Education Program 080250-0708:	84.298		
Passed through to:			
Ada Christian School		\$	997
Algoma Christian School			353
Blessed Sacrament School			320
Byron Center Christian School			634
Calvin Christian Elementary School			262
Calvin Christian High School			623
Calvin Christian Junior High School			171
Catholic Central High School			1,278
Creston-Mayfield Christian School			239
Dutton Christian Elementary School			11
Evergreen Christian School			128
Grand Rapids Christian High School			1,517
Grand Rapids Christian Middle School			718
Grand Rapids Adventist Academy			102
Grandville Christian School			1,051
Holy Name School			437
Holy Spirit School			537
Holy Trinity Evangelical Lutheran School			209
Holy Trinity Catholic School			241
Immaculate Heart of Mary School			599
Immanuel St. James Lutheran School			239
Legacy Christian School			666
Millbrook Christian School			756
Montessori Society of Greater Grand Rapids			164
North Hills Classical Academy			112
Northpointe Christian High School			1,236
Oakdale Christian School			558
Our Savior Lutheran School			231
Plymouth Christian Elementary School			367
Plymouth Christian High School			718
Sacred Heart Catholic School			226
St. Alphonsus Catholic School			508
St. Andrew Catholic School			239
St. Isidore Catholic School			259
St. John Vianney School			239
St. Jude Elementary School			347
St. Patrick School			297
St. Peter and Paul Catholic School			137
St. Thomas Catholic School			449
South Christian High School			1,129
Total Title V			19,304

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KENT INTERMEDIATE SCHOOL DISTRICT
SCHEDULE OF SUBRECIPIENT EXPENDITURES OF FEDERAL AWARDS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2008

Program Title/Project Number/Subrecipient Name	CFDA Number	Current Year Cash Transferred to Subrecipient
Safe and Drug Free Schools and Communities Drug Free Formula 082860/0708:	84.186	
<i>Passed through to:</i>		
Belding Area Schools		\$ 7,896
Byron Center Charter School		249
Byron Center Public Schools		2,574
Caledonia Community Schools		7,036
Carson City-Crystal Area Schools		4,925
Cedar Springs Public Schools		8,515
Central Montcalm Public Schools		704
Comstock Park Public Schools		6,071
East Grand Rapids Public Schools		4,087
Forest Hills Public Schools		17,285
Godfrey-Lee Public Schools		1,865
Godwin Heights Public Schools		4,347
Grandville Public Schools		14,203
Greenville Public Schools		6,195
Ionia County ISD		827
Ionia Public Schools		8,764
Kelloggsville Public Schools		6,711
Kenowa Hills Public Schools		3,124
Kent City Community Schools		3,902
Lakeview Community Schools		4,013
Lakewood Public Schools		6,077
Lowell Area Schools		1,339
Montcalm Area ISD		267
Montabella Community Schools		1,428
New Branches Academy		407
Northview Public Schools		7,223
Portland Public Schools		5,096
Rockford Public Schools		15,103
Sparta Area Schools		5,951
Saranac Community Schools		1,522
Thornapple Kellogg Schools		5,480
Vestaburg Community Schools		2,599
West Michigan Academy of Environmental Science		1,421
William C. Abney Academy		2,793
Total Drug Free Formula 082860/0708		169,999
Safe and Drug Free Schools and Communities Drug Free Formula 072860/0607:	84.186	
<i>Passed through to:</i>		
Byron Center Public Schools		4,916
Central Montcalm Public Schools		7,736
East Grand Rapids Public Schools		1,667
Godfrey-Lee Public Schools		2,271
Godwin Heights Public Schools		1,933

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KENT INTERMEDIATE SCHOOL DISTRICT
SCHEDULE OF SUBRECIPIENT EXPENDITURES OF FEDERAL AWARDS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2008

Program Title/Project Number/Subrecipient Name	CFDA Number	Current Year Cash Transferred to Subrecipient
Drug Free Formula 072860/0607 (continued):		
Greenville Public Schools		\$ 4,102
Kenowa Hills Public Schools		4,131
Kent City Community Schools		15
Kentwood Public Schools		16,213
Lowell Area Schools		4,905
Montabella Community Schools		4,058
Montcalm ISD		233
Portland Public Schools		1,225
Saranac Community Schools		2,835
Tri-County Area Schools		3,290
Vestaburg Community Schools		924
West Michigan Academy of Environmental Science		2,079
Total Drug Free Formula 072860/0607		62,533
Total Drug Free Formula		232,532
U.S. Department of Education		
<i>Passed through the Michigan Department of Education</i>		
Enhancing Education Through Technology	84.318X	
<i>Passed through to:</i>		
Grand Rapids Public Schools		4,000
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES		
<i>Passed through Corporation of National and Community Service</i>		
Learn and Serve 2007/2008	94.004	
<i>Passed through to:</i>		
Kentwood Public Schools		1,213
<i>Passed through Corporation of National and Community Service</i>		
Learn and Serve 2007/2008	94.004	
<i>Passed through to:</i>		
Kenowa Hills Public Schools		5,000
Kentwood Public Schools		2,173
Northview Public Schools		2,510
Sparta Area Schools		7,858
Total Learn and Serve 2007/2008		17,541
Total General Education Fund		274,590
Vocational Education Fund		
Carl D. Perkins Vocational and Applied Technology Education Act of 1990		
Regional Allocation-Special Needs 083520/801213:	84.048A	
<i>Passed through to:</i>		
Allegan County Intermediate School District		150,000
Total U.S. Department of Education		22,375,268

continued....

KENT INTERMEDIATE SCHOOL DISTRICT

SCHEDULE OF SUBRECIPIENT EXPENDITURES OF FEDERAL AWARDS (CONCLUDED)

FOR THE YEAR ENDED JUNE 30, 2008

Program Title/Project Number/Subrecipient Name	CFDA Number	Current Year Cash Transferred to Subrecipient
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES		
<i>Passed through the Michigan Department of Education</i>		
Special Education Fund		
School Based Medicaid 06/07:	93.778	
<i>Passed through to:</i>		
Byron Center Public Schools		\$ 2,223
Caledonia Community Schools		1,066
Cedar Springs Public Schools		4,636
Comstock Park Public Schools		2,138
East Grand Rapids Public Schools		379
Forest Hills Public Schools		5,670
Godfrey-Lee Public Schools		1,324
Godwin Heights Public Schools		450
Grand Rapids Public Schools		60,645
Grandville Public Schools		2,904
Kelloggsville Public Schools		2,720
Kenowa Hills Public Schools		2,542
Kent City Community Schools		58
Kentwood Public Schools		7,821
Lowell Area Schools		2,720
Northview Public Schools		4,571
Rockford Public Schools		4,005
Sparta Area Schools		1,711
Thornapple-Kellogg Public Schools		1,119
West Michigan Academy of Environmental Sciences		41
Wyoming Public Schools		8,203
Total School Based Medicaid 06/07		116,946
Total Federal Financial Assistance Provided to Subrecipients		\$ 22,492,214

KENT INTERMEDIATE SCHOOL DISTRICT

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

FOR THE YEAR ENDED JUNE 30, 2008

SECTION I – SUMMARY OF AUDITORS’ RESULTS

Financial Statements

Type of auditors’ report issued:	<i>Unqualified</i>		
Internal controls over financial reporting:			
Material weakness(es) identified?	<u> x </u>	yes	<u> </u> no
Significant deficiency(ies) identified not considered to be material weaknesses?	<u> </u>	yes	<u> x </u> none reported
Noncompliance material to financial statements noted?	<u> </u>	yes	<u> x </u> no

Federal Awards

Internal Control over major programs:			
Material weakness(es) identified?	<u> </u>	yes	<u> x </u> no
Significant deficiency(ies) identified not considered to be material weaknesses?	<u> x </u>	yes	<u> </u> none reported
Type of auditors’ report issued on compliance for major programs:	<i>Unqualified</i>		
Any audit findings disclosed that are required to be reported in accordance with Circular A-133, Section 510(a)?	<u> </u>	yes	<u> x </u> no

Identification of Major Programs

CFDA Number(s)

84.027 & 84.173
84.010

Name of Federal Program or Cluster

Special Education Cluster
Title I Regional Assistance Grants

Dollar threshold used to distinguish between Type A and Type B programs:

\$ 856,728

Auditee qualified as low risk auditee?

 x yes no

KENT INTERMEDIATE SCHOOL DISTRICT

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

FOR THE YEAR ENDED JUNE 30, 2008

SECTION II – FINANCIAL STATEMENT FINDINGS

Finding 2008-1 – Material Audit Adjustments

Criteria:	Management is responsible for maintaining its accounting records in accordance with generally accepted accounting principles (GAAP).
Condition:	During our audit, we identified and proposed a material audit adjustment, which was approved by management and posted to the District's records, to adjust the District's balance for compensated absences payable in the internal service fund to the appropriate amount.
Cause:	This condition was the result of an oversight by management in calculating the accrual for one employee under an individual plan.
Effect:	As a result of this condition, the District's accounting records were initially misstated by an amount material to the financial statements.
Recommendation:	We recommend that the District compare all accruals to the prior year balances and investigate any significant fluctuations in order to identify errors prior to the audit.
View of Responsible Officials:	Management has modified its procedures for calculating compensated absences to prevent future miscalculations.

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Finding 2008-2 – Allocation of Personnel Costs Allowable Costs/Cost Principles Title I – Regional Assistance Grants (CFDA #84.010)

Criteria:	Time spent working on federal grants must be documented for co-funded and 100% funded staff in compliance with OMB Circular A-87, Attachment B, Item 8h.
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Condition:	The District charged personnel costs for one employee at a percentage greater than the percentage documented on the signed monthly employee time allocation report. In addition, time spent working on federal grants by co-funded staff should be documented by actual (rather than estimated or budgeted) time reports.
Cause:	This condition was partially caused by a management oversight in updating the percentages on the monthly employee time allocation reports after the grant award was increased mid-year. In addition, monthly personnel activity reports were pre-printed with budgeted amounts and did not reflect an after-the-fact accounting of actual time spent on a particular federal cost objective.
Effect:	As a result of this condition, the District's failed to comply with the documentation requirements of OMB Circular A-87 for personnel services.
Questioned costs:	No costs were required to be questioned in accordance with OMB Circular A-133.
Recommendation:	We recommend that the District require all co-funded personnel to either (1) charge personnel costs to each grant based on budgeted figures, and make subsequent adjustments based on actual activity, or (2) charge time to each grant based on actual activity reports, prepared after the fact
View of Responsible Officials:	Kent ISD personnel that are charged to multiple federal grants will now be required to keep a monthly time log based on actual hours worked. This time log will be signed by the supervisor and forwarded to the Business Office for processing. This time log will be compared to the monthly payroll allocation. If needed, adjustments will be made to the payroll allocation to match the time logs that were submitted.

SECTION IV – SUMMARY OF PRIOR AUDIT FINDINGS

Finding 2007-1: Significant Audit Adjustments – In the prior year, the audit identified misstatements to the preliminary financial statements that were more than inconsequential. Management reviewed and approved these adjustments in the prior year, and no further corrective action was required.

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REHMANN ROBSON

Certified Public Accountants

A member of **THE REHMANN GROUP**

November 12, 2008

To the Board of Education
Kent Intermediate School District

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the *Kent Intermediate School District* (the "District") for the year ended June 30, 2008, and have issued our report thereon dated November 12, 2008. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility Under Auditing Standards Generally Accepted in the United States of America and OMB Circular A-133

As stated in our engagement letter dated July 18, 2008, our responsibility, as described by professional standards, is to express opinions about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with accounting principles generally accepted in the United States of America. Our audit of the financial statements does not relieve you or management of your responsibilities.

In planning and performing our audit, we considered the District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide assurance on the internal control over financial reporting. We also considered internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit. Also, in accordance with OMB Circular A-133, we examined, on a test basis, evidence about the District's compliance with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* applicable to each of its major federal programs for the purpose of expressing an opinion on the District's compliance with those requirements. While our audit provides a reasonable basis for our opinion, it does not provide a legal determination on the District's compliance with those requirements.

Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to you in our engagement letter and our meeting about planning matters on September 15, 2008.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the District are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year. We noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements were:

- Management's estimate of the useful lives of depreciable capital assets is based on the length of time it is believed that those assets will provide some economic benefit in the future.
- Management's estimate of the accrued compensated absences is based on current hourly rates and policies regarding payment of sick and vacation banks.
- Management's estimate of the value of Munis computer software licenses held in anticipation of future sales to local districts.

We evaluated the key factors assumptions used to develop these estimates in determining that they are reasonable in relation to the financial statements taken as a whole.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. The following material misstatement was detected as a result of audit procedures and was corrected by management: an employee's compensated absence balance was incorrectly overstated by \$59,868.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated November 12, 2008.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Entity's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the governmental unit's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

This information is intended solely for the use of the governing body and management of the *Kent Intermediate School District* and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

A handwritten signature in black ink, appearing to read "Lehmann Lohman". The signature is written in a cursive, flowing style.